



# State of Louisiana

EXECUTIVE OFFICE

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MR. PRESIDENT, MR. SPEAKER AND HONORABLE MEMBERS OF THE  
LEGISLATURE:

Presented, herewith, is my budget recommendation for the fiscal year beginning July 1, 2004. It has been prepared in accordance with the constitution and applicable statutes, and provides financial and program information to assist you in making informed decisions as you consider appropriations for the coming year. In accordance with Article VII, Section 11 of the Constitution, I will also prepare the original appropriations bill in conformity with this document.

This submission marks my first opportunity to present an Executive Budget for your consideration and deliberation. However, my years of service for the people of Louisiana have prepared me to take up this challenge.

During the formulation of this Executive Budget recommendation, my budget development team confronted severe revenue shortfalls caused by sluggish growth (just \$13.1 Million) in State General Fund, loss of one-time federal funds from Federal Fiscal Relief (\$253.8 Million), the reduction in Temporary Assistance to Needy Families (TANF) funds available for funding of various initiatives, and the expiration of approximately \$160 million in sales taxes. In contrast, expenditure requirements continue to grow. These include required growth in the Minimum Foundation Program, utilization and cost increases in Medicaid, and increases related to retirement, group insurance, and essential technology infrastructure needs. This produced a gap of about \$500 Million between anticipated revenue and expenditure needs.

Although the time available to us to resolve these problems was short, we were committed to the construction of a balanced budget that maintains fundamental state services, singles out no service area to shoulder a disproportionate share of cuts, and reduces needless alarm to our constituents. As a result, I consider this Executive Budget a starting point. We begin with an Executive Budget that does not address all needs fully but presents an equitable distribution of resources across departments and services. With this balanced beginning, we can work together to build a workable budget and find reasonable resolutions to critical funding issues.

One area where we must act together is to renew expiring taxes and to make other revenues legally available. This Executive Budget recommendation includes \$228 Million in Supplementary Budget Recommendations – often called “below the line” funding - from three sources:

- 1) \$160 Million is dependent on renewal of suspension of exemptions for various non-residential sales transactions, including utilities.
- 2) \$51.4 Million is linked to a proposed change to make additional mineral revenues available to the State General Fund. Currently these revenues are slated for deposit into the Budget Stabilization Fund, but provisions in the Louisiana Constitution allow the Legislature to increase the cap on such deposits to the extent of one-half of the Consumer Price Index growth for the prior 10 years.
- 3) \$17.3 Million based on use of prior year surplus funds to defease debt. Fiscal Year 2002-2003 ended with a State General Fund surplus of \$23 Million. Twenty-five percent of this is credited to the Budget Stabilization Fund and the remaining seventy-five percent will be utilized in the current year to defease state general obligation debt thereby reducing debt service in Fiscal Year 2004-2005.

Again, we used a broad-based, equitable allocation of items to be funded from supplementary sources of revenue. No one agency or spending area is targeted or "held hostage" in my supplementary recommendations. However, if any one of these three supplementary revenue sources is not approved, the overall equity of these recommendations will be affected and a redistribution of funding among all departments and agencies will be required.

Including these Supplementary Recommendations, this Executive Budget Recommendation reflects a 3.2% increase in State General Fund, a decrease of 5.9% in Federal Funds, and an overall decrease of 0.6% (total means of financing, exclusive of double counts).

Although we were unable to address all vital needs to the extent we believe is required to further accelerate Louisiana's growth and development, this Executive Budget recommendation does provide funds for my stated priorities, including education, economic development, health care, juvenile justice, and infrastructure.

- In the short and medium-term, job retention and expansion are critical. To this end, we continue to boost the efforts of the Louisiana Department of Economic Development to expand job opportunities and improve the state's business environment through the addition of \$10 Million for the Governor's Economic Development Rapid Response Program.
- In the longer term, education is the key to the economic development and well being of Louisiana and her residents. As a result, this Executive Budget recommendation maintains funding for public and private Pre-K programs, continues and increases funding of school accountability initiatives, and increases funding for charter schools. Further, we continue the state's commitment to a strong higher education system by providing \$5 Million in the operating budget for Library and Scientific Acquisitions and \$5 Million in additional funding for the development of the community and technical colleges throughout Louisiana.
- My recommended budget for health care includes an additional \$191 Million (total funds) for increased health care services in Medicaid and Uncompensated Care. Of this amount, funding for Medicaid private providers and buy-in programs will increase by \$109 Million and \$47 Million will continue funding added in Fiscal Year 2003-2004 to stabilize operations of the

Charity Hospital System and the LSU Health Sciences Center Shreveport hospitals. Also, Uncompensated Care payments for rural and large non-state hospitals increase by \$32 Million.

- From all means of financing, Department of Health and Hospitals (DHH) facilities and agencies (not including the Medical Vendor Program) will receive an additional \$19 Million over Fiscal Year 2003-2004. The recommended budget also implements the creation of two new human service districts (Florida Parishes Human Services Authority and Metropolitan Human Services District).
- This Executive Budget addresses the critical issue of Juvenile Justice Reform and begins implementation of Act 1225 of 2003. As part of our transition from secure care facilities to community-based programs, a “firewall” has been constructed between adult corrections and juvenile justice services, through creation of an independent budget schedule for Youth Development Services. Further, an increase of \$7.3 Million—26% over the existing funding level—is recommended for the Contract Services program, which provides community-based juvenile care, in the Office of Youth Development.

Finally, this Executive Budget implements the merger of the Department of State and the Department of Elections and Registration, as well as the first full operational year of the newly created Department of Veterans Affairs.

We have challenged department leaders and managers to live within tightened budgetary limits. All agencies are forced to absorb projected general inflation increases of 1.57% and medical inflation of 3.34%. We have funded annualization of merit increases, new merit increases, increased costs of group insurance, and to a large extent, increased retirement system costs. However, in most cases (including higher education), these increases are funded through reductions in other expenditure categories of agencies’ budgets, thus producing no bottom line funding growth. Only agencies with Federal funds or a secure revenue stream where balances do not revert to the State General Fund received additional funding for these increased costs.

In this Executive Budget, my budget team and I are presenting an equitable starting point. Like all Louisiana families, state government must live within its means. While doing so, however, we must work together to find reasonable solutions that will allow us to make enhanced investments in such vital areas as education, economic development, health care, and infrastructure. As we journey down this road together, we must build upon our many strengths and look for opportunities to make crucial investments that will result in a brighter, more prosperous future for our citizens.

I look forward to working with each of you during this process. My staff and I stand ready to assist you in any way possible as you consider this budget.

Sincerely,



Kathleen Babineaux Blanco